SCOPE OF SERVICES

TASK 1: PROJECT MANAGEMENT, ADMINISTRATION, AND INITIATION

TASK 1.1: ONGOING PROJECT MANAGEMENT AND QUALITY ASSURANCE/QUALITY CONTROL PROCESS

Our project management approach stresses communication, teamwork, objectivity, and accountability to meet project objectives. Task 1.1 includes general administrative duties including client correspondence, billing, project documentation, and administration of the Study. We believe in a no-surprises approach and communicate with clients on a regular basis through face-to-face meetings, web meetings, and telephone conferences, so that the client is aware of project status at all times.

At the heart of Raftelis' core philosophy is our commitment to quality. The foundation of our Quality Assurance/Quality Control (QA/QC) program is based on the concept that QA/QC is a continuous process, not simply a mechanism to be incorporated at the end of an engagement. To ensure this level of quality control, our Technical Reviewer will be responsible for ensuring that the cost of service and rate model developed is functioning properly and is based on sound rate making principles and standard industry practice through periodic review of the issues and model throughout the course of the project. We have found that a well-defined QA/QC process ensures that all our work products will be of the highest quality and meet or exceed the standards that our clients have come to expect from Raftelis.

Meeting(s): *None*
Deliverable(s): *None*

TASK 1.2: PROJECT INITIATION, KICK-OFF MEETING, AND DATA COLLECTION

We believe that the execution of a productive kick-off meeting is the most effective way to begin a Study of this nature. Raftelis uses the kick-off meeting to perform our due diligence to ensure that project stakeholders agree to the project's goals, approach, work plan, schedule, and the Study's priorities. As part of the meeting, Raftelis will:

- Discern the major drivers for the Study
- Work with City staff to identify and prioritize pricing objectives
- Discuss reserves and reserve policies
- Discuss debt policies for capital funding and capital projects
- Review the data request list and pinpoint data gaps or questions

A detailed data request list will be provided prior to the kick-off meeting and will be reviewed and amended if necessary. The Project Team will study this data diligently to understand the City's revenue streams, operating and capital expenditures, water supply conditions, and customer base and usage patterns to perform the Study in line with the City's overall objectives.

Meeting(s): *One (1) kick-off web meeting with City staff*
Deliverable(s): *Data request list, kick-off meeting agenda and minutes*

TASK 2: FINANCIAL PLAN DEVELOPMENT

After the data has been compiled and analyzed, Raftelis will begin the process of developing a five-year financial plan which will involve projecting demand for accounts and consumption and forecasting revenue requirements. Raftelis will develop a detailed forecast model that will serve as the initial module of the Financial Plan and Rate Model (Model). Once completed, the Model will serve as a comprehensive yet flexible planning tool that will incorporate the City's capital improvement plan, capital financing plan, forecasted demand projections, revenue requirements, detailed cost and revenue projections, and reserve balances.

The Project Team will itemize costs from the City's budget into appropriate cost categories and determine a five-year cost forecast based on inflation assumptions provided by City staff. In addition, Raftelis will project non-rate revenues such as late fees, interest, miscellaneous fees, etc. that may be used to offset rate increases. Another important element of our financial plan is the development of reserves for operating, capital, rate stabilization, and emergency purposes. We will take into consideration the City's risk management and financial policies to recommend appropriate reserve targets.

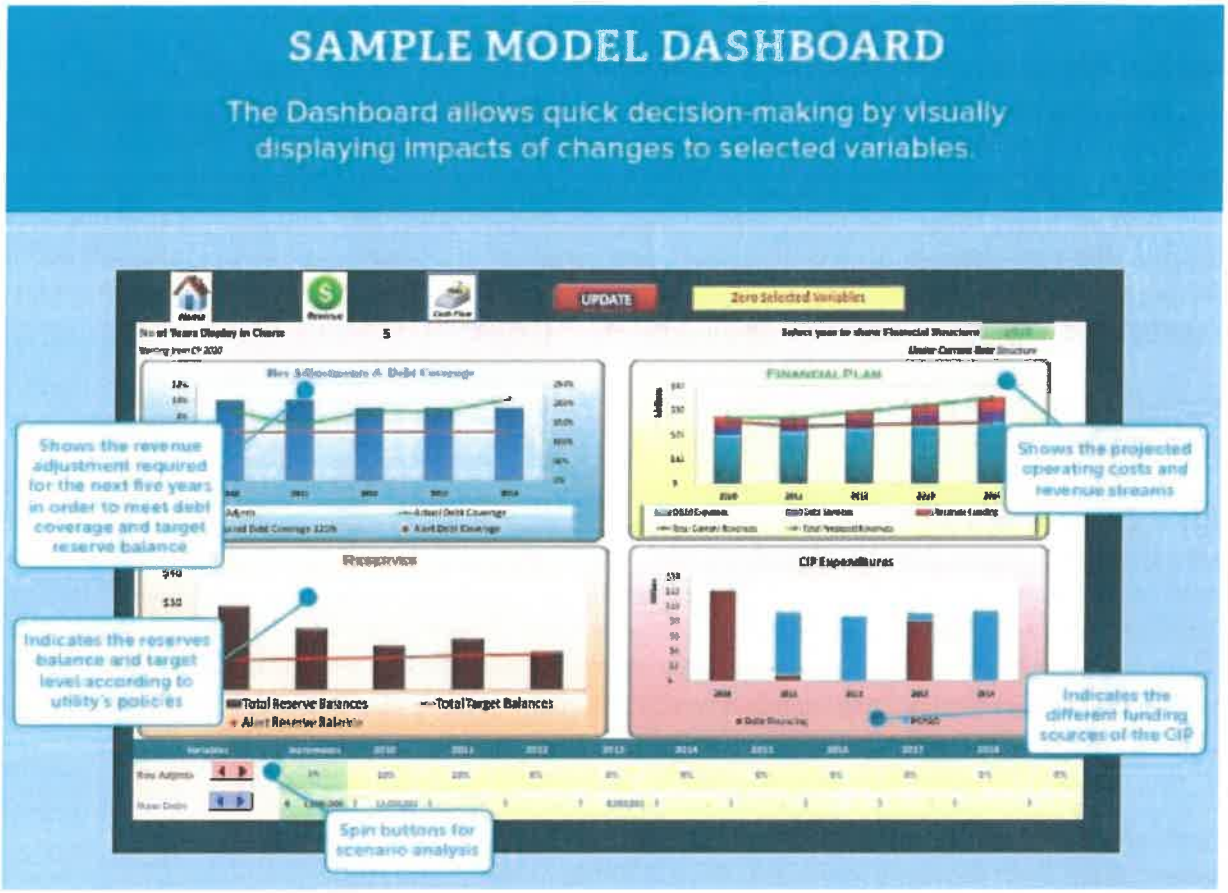
Ultimately, the Project Team will project how much cash needs to be collected through water and sewer rates to meet projected revenue requirements while minimizing sharp rate fluctuations. The Model will determine the capability of the City's existing and scheduled water and sewer rates to support operations, and if necessary, propose revenue adjustments that will allow the City to effectively meet its financial obligations. Projecting revenue adjustments over a long planning horizon can illustrate future rate impacts and potential challenges to the City's financial situation in both the short-term and long-term. This will allow the City to plan expenses, reserve balances, and/or capital project schedules to smooth rate impacts and to maintain financial stability throughout the five-year planning horizon.

Raftelis will create a customized computer Model to develop revenue requirements, perform financial planning, and calculate water rates based on a standardized approach to meet the City's specific needs. Below is a sample model screenshot demonstrating key model features:

- Revenue adjustments required for the next five (or more) years to meet debt coverage and target reserve balance(s)
- Projected operating costs and revenue streams
- Reserve balances and target levels according to the City's fiscal policies
- Different funding sources of CIP (rate or debt financed)
- Spin buttons (dynamic selection options) for scenario analyses

This model is very useful for decision makers to review results of multiple scenarios and assess impacts so that they can agree on a solution that best meets the City's needs.

Meeting(s): *Two (2) web meetings with City staff*
Deliverable(s): *Draft Financial Plan Model in Microsoft Excel*



TASK 3: COST OF SERVICE ANALYSIS

For the water system, the cost of service analysis is based on industry standards and methodologies approved by the American Water Works Association (AWWA) and described in the *Manual M1: Principles of Water Rates, Fees and Charges, 6th Edition* (*Manual M1*) (which was co-authored by Raftelis staff). Cost allocations among customer classes will be based on the AWWA-approved Base-Extra Capacity approach which focuses on the different usage patterns, or peaking factors, demonstrated by each customer class.

Based on the revenue requirement identified in the financial plan, water expenses are allocated to cost components, including capacity-related costs, commodity costs, conservation costs, and other direct and indirect costs consistent with industry standards. The end goal of this task is to distribute the cost components to customer classes based on the cost responsibility of each. The result is the total cost to serve each customer class which is used as the basis to develop rates.

For the sewer system, Raftelis will use the methodologies set forth by the Water Environment Federation (WEF) in their *Manual of Practice No. 27, Financing and Charges for Wastewater Systems* (which was co-authored by Raftelis staff, including Sudhir Pardiwala). Cost allocations among customer classes will be based on the flow of each class.

Meeting(s): *None*
Deliverable(s): *Draft Cost of Service Analysis in Model in Microsoft Excel*

TASK 4: RATE DEVELOPMENT AND CUSTOMER IMPACTS ANALYSIS

TASK 4.1: RATE CALCULATION AND DEVELOPMENT

After conducting the cost of service analysis, Raftelis will calculate water and sewer rates under the current rate structures. Providing affordability in the first tier will be one of the objectives of the rate structure. The Model will also have the built-in capability to conduct various scenario analyses to address different issues such as water usage reduction, sewer flows, etc. to calculate water and sewer rates under each scenario. The rate dashboard, which displays key variables and results instantaneously, will facilitate discussion to reach a consensus quickly. This has proven to be particularly useful when making presentations to elected officials, allowing them to instantly understand the impacts of their decisions.

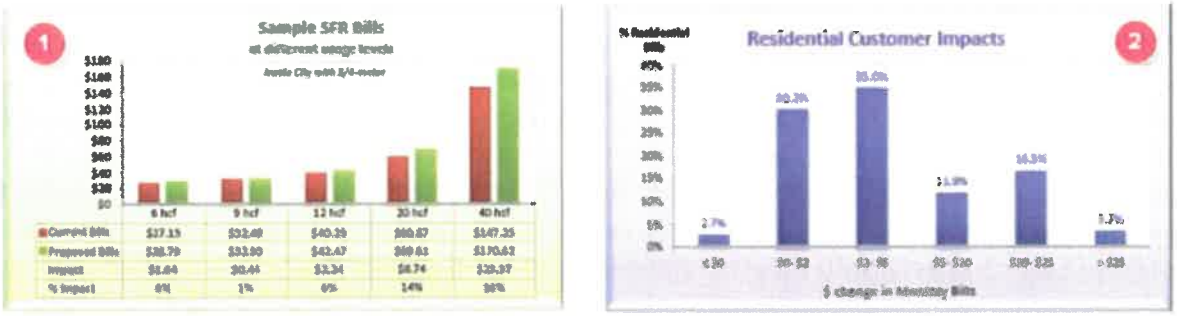
Meeting(s): *One (1) web meeting with City staff, one (1) in-person meeting with City staff*
Deliverable(s): *Draft Rate Model in Microsoft Excel*

TASK 4.2: CUSTOMER IMPACTS ANALYSIS

Rate adjustments stem from a change in the revenue requirement; the total rate adjustment can sometimes cause "rate shock" to customers. Therefore, Raftelis will determine the potential financial impact on customers that result from the proposed rates. The customer impact analysis will include a series of tables and figures that show projected rate impacts by customer class at various levels of usage. As an example, the customer impact illustration shown below indicates that a typical customer with a ¾ inch meter using 12 hundred cubic feet (hcf) per month will see a $2.24, or 6%, increase in the monthly bill.

Meeting(s): *None*
Deliverable(s): *Draft Customer Impacts Analysis in Model in Microsoft Excel*

The assessment of the overall financial impacts on customers is a tool for stakeholders to make informed decisions regarding different policy options and variables



TASK 5: DRAFT AND FINAL REPORT PREPARATION

Raftelis will prepare a detailed report explaining the nexus between costs and rates clearly identified step by step in an administrative record. Raftelis will prepare a Draft Report which will include an executive summary highlighting the major issues and decisions reached during previous meetings with City staff. The main body of the report will include a brief physical description of each utility system and service areas and an overview of operations and maintenance expenses, capital projects, financial plan, and a detailed description of the cost of service analysis and proposed rates. It will also contain a discussion on rate

structure selection, rate design assumptions, and analysis and methodologies used to develop the rates. The Report will clearly show the nexus between the City's costs and proposed rates.

City staff will provide comments for incorporation into the Final Report. Following the submission of the Draft Report and input from City staff, Raftelis will prepare the Final Report.

Meeting(s): *One (1) web meeting with City staff*
Deliverable(s): *Draft Report and Final Report in Microsoft Word*

TASK 6: CITY COUNCIL MEETING/PUBLIC HEARING

Raftelis will conduct up to two meetings with the City Council, including a Public Hearing. The meetings will present the proposed financial plan and resulting rates of the Study. Raftelis will prepare a presentation to accompany the Final Report, which will be presented at a Public Hearing.

Meeting(s): *One (1) City Council meeting, one (1) Public Hearing*
Deliverable(s): *Final presentation for Public Hearing*

FEE SCHEDULE

The table below provides a breakdown of the estimated level of effort required for completing each task described and the hourly billing rates for the personnel scheduled to complete the project. Raftelis proposes to complete the scope of work outlined in our proposal on a time-and-materials basis with a not-to-exceed cost including related expenses. Expenses include costs associated with travel, and a $10 per hour technology charge covering computers, networks, telephones, postage, etc.

City of La Habra - Water and Sewer Rate Study

Proposed Hours

Task	Task Descriptions	Web Meetings	No of Meetings	Hours Requirements					Total Fees & Expenses
				SP	TR	FC	Admin	Total	
	HOURLY RATES			$340	$215	$185	$80		
1	Project Management, Administration, and Initiation	1		8	4	10	8	30	$6,370
2	Finanical Plan Development	2		12	20	64		96	$21,180
3	Cost of Service Analysis			8	4	24		36	$8,380
4	Rates Development and Customer Impacts Analysis	1		8	8	32		48	$10,840
5	Draft and Final Report Preparation	2		12	10	70	2	94	$20,280
6	City Council Meeting/Public Hearing		2	8	4	6	2	20	$5,815
	TOTAL ESTIMATED MEETINGS / HOURS	6	2	56	50	206	12	324	
	PROFESSIONAL FEES			$19,040	$10,750	$38,110	$960	$68,860	

SP - Sudhir Pardiwala (Executive Vice President), Project Manager

TR - Technical Reviewer

FC - Financial Conultants

Total Fees	$68,860
Total Expenses	$4,005
TOTAL FEES & EXPENSES	$72,865